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SUBJECT: TREASURY SECRETARY PAULSON HOSTS VIETNAMESE ENTREPRENEURS

HANOI 00002316 001.2 OF 002

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¶1. (SBU) Summary: On September 7, Treasury Secretary Paulson hosted a diverse group of Vietnamese entrepreneurs, representing sectors from finance to technology. The entrepreneurs spoke freely about the difficulties they faced. Finding and retaining good personnel, especially in the face of competition from foreign firms, was one issue they stressed. Another was dealing with a still omnipresent state, with its demands for excessive paperwork, monopoly power, and an unstable and non-transparent legal system. Instability was also a concern expressed about the still underdeveloped capital markets. The entrepreneurs emphasized the importance of WTO accession, which they saw as both a benefit and a challenge. In response to a question from the Ambassador, they admitted that corruption was Vietnam's biggest problem and asked for U.S. training to help combat it. End summary.

¶2. (SBU) On September 7 during his participation in the APEC Financial Ministerial, Secretary Paulson held a lunch with seventeen Vietnamese entrepreneurs, representing a wide range of sectors, including banking, investment, distribution, education, law and technology. Most were completely private, but there was one former state-owned enterprise, which still had 8 percent state ownership, down from 30 percent when it was first equitized. The business representatives were young and included men and women.

¶3. (SBU) The Secretary invited the guests to introduce themselves and say something about their companies and the problems they faced. There were a number of common themes that came out of the discussion.

-- Skill shortages: The problem most often raised was the difficulty of finding and retaining good workers and the need for better education. One businessman lamented that it was hard to attract good staff since his firm could only offer on-the-job training, not formal training opportunities as foreign firms could. A businesswoman noted that an important benefit of working with her foreign partner was that it could offer her employees training opportunities. One businessman said that keeping talented workers was especially a challenge for small and medium sized businesses and state owned enterprises. Another complained that employees are shortsighted and think only of money. Other companies also noted

the importance of better training and education for the economy generally. The Secretary pointed out that finding quality personnel is key to businesses everywhere. Speaking about retention, he noted that a shortsighted perspective is a universal problem, but that it is especially prevalent in transition economies, like Vietnam's, because people lack confidence that reforms will continue.

-- Government obstacles: Another important theme was the continued obstacles that the government places on business and the need for further reform. Participants urged Secretary Paulson to help Vietnam speed up reforms and create a favorable environment for business. Several businessmen complained about excessive paperwork.

One said it took eight official signatures to clear an article through customs. Bureaucratic procedures created long delays for his foreign investor clients, such as Bechtel Corporation, which is trying to build a power plant in Vietnam, he said. An advertising firm representative said that it took 60 days to get an advertising license that was only good for a year. Another firm complained that the state monopoly in the telecom hindered his business development.

Several firms noted the lack of transparency and stability in laws and regulations. One firm said that the problem was not so much with the laws as with implementation. Another noted that private firms were not consulted in drafting new legislation. The Secretary assured his guests that he raised the need to push forward with reforms and to create a good environment for business in all his meetings with government officials and noted that lack of transparency and excessive regulation fuel corruption. He said that government monopolies are always opponents of market reforms.

-- WTO Accession: Several participants stressed the importance of WTO accession and hope that the United States will soon pass PNTR. An investment firm representative said that WTO accession would reduce business risk significantly because the government of Vietnam would no longer be able to reverse its market policies. WTO rules would also equalize conditions between foreign and domestic, private and state-owned companies. Some firms were concerned about the challenges they would face after WTO accession, with one participant

HANOI 00002316 002.2 OF 002

truly noting that if you couldn't compete now you certainly would not be able to compete after WTO accession.

-- Capital Market Development: The firms working in finance or investment stressed that financial markets were still underdeveloped and unstable. The Secretary said that instability was characteristic of new markets like Vietnam and the solution was liberalization. A strong financial system is essential, he said, and there is not a single example of a vibrant stock market that has not opened up to foreign investment.

¶4. (SBU) After the entrepreneurs had spoken, the Ambassador expressed surprise that no one had mentioned corruption as a problem. His comment provoked an immediate response. One entrepreneur said that corruption was Vietnam's biggest problem; it hindered both foreign and domestic investment. She asked how the United States, through training and education, could help. Another businesswoman agreed that training and education would be useful, but emphasized that greater transparency would reduce corruption. The Secretary called corruption a "cruel and unfair tax" and said that decreasing regulation and increasing transparency would help reduce opportunities for corruption. However, while government would have to begin the fight against corruption, it cannot do it all. The best companies never give in to corruption, he affirmed.

¶5. (U) This cable has been cleared by Treasury staff.

MARINE